



Johnston Investment Counsel

Gregory A. Johnston, CFA, CFP, QPFC, AIF
President & Chief Investment Officer
2714 N. Knoxville
Peoria, IL 61604
309-674-3330
gjohnston@jicinvest.com
www.jicinvest.com

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Converting Retirement Savings to Retirement Income

Spring Cleaning Your Finances

How can I prepare financially for stormy weather?

What bond ratings do agencies use?



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Four Ways to Double the Power of Your Tax Refund



The IRS expects that more than 70% of taxpayers will receive a refund in 2017.¹ What you do with a tax refund is up to you, but here are some ideas that may make your refund twice as valuable.

accounts include savings and checking accounts, as well as IRAs (except SIMPLE IRAs), Coverdell Education Savings Accounts, health savings accounts, Archer MSAs, and TreasuryDirect® online accounts. To split your refund, you'll need to fill out IRS Form 8888 when you file your federal return.

Double down on your debt

Using your refund to pay down credit card debt or a loan with a high interest rate could enable you to pay it off early and save on interest charges. The time and money you'll save depend on your balance, the interest rate, and other factors such as your monthly payment. Here's a hypothetical example. Let's say you have a personal loan with an \$8,000 balance, a 12% fixed interest rate, and a 24-month repayment term. Your fixed monthly payment is \$380. If you were to put a \$4,000 refund toward paying down your principal balance, you would be able to pay off your loan in 12 months and save \$780 in interest charges over the remaining loan term. Check the terms of any loan you want to prepay, though, to make sure that no prepayment penalty applies.

Be twice as nice to others

Giving to charity has its own rewards, but Uncle Sam may also reward you for gifts you make now when you file your taxes next year. If you itemize, you may be able to deduct contributions made to a qualified charity. You can also help your favorite charity or nonprofit reap double rewards by finding out whether your gift qualifies for a match. With a matching gift program, individuals, corporations, foundations, and employers offer to match gifts the charitable organization receives, usually on a dollar-for-dollar basis. Terms and conditions apply, so contact the charitable organization or your employer's human resources department to find out more about available matching gift programs.

¹IR-2017-01, irs.gov

Double your savings

Perhaps you'd like to use your tax refund to start an education fund for your children or grandchildren, contribute to a retirement savings account for yourself, or save for a rainy day. A financial concept known as the Rule of 72 can give you a rough estimate of how long it might take to double what you initially save. Simply divide 72 by the annual rate you hope that your money will earn. For example, if you invest your tax refund and it earns a 6% average annual rate of return, your investment might double in approximately 12 years (72 divided by 6 equals 12).

This hypothetical example of mathematical compounding is used for illustrative purposes only and does not represent the performance of any specific investment. Fees, expenses, and taxes are not considered and would reduce the performance shown if they were included.

Split your refund in two

If stashing your refund away in a savings account or using it to pay bills sounds unappealing, go ahead and splurge on something for yourself. But remember, you don't necessarily have to spend it all. Instead, you could put half of it toward something practical and spend the other half on something fun.

The IRS makes splitting your refund easy. When you file your income taxes and choose direct deposit for your refund, you can decide to have it deposited among two or even three accounts, in any proportion you want. Qualified

Converting Retirement Savings to Retirement Income



Regardless of which path you choose with your retirement accounts, keep in mind that generally, you'll be required to begin taking minimum distributions from employer-sponsored plans and traditional IRAs in the year you reach age 70½; you can delay your first distribution as late as April 1 of the following year.

Taxable distributions from traditional employer-sponsored plans and IRAs prior to age 59½ may be subject to a 10% penalty tax, unless an exception applies.

Different rules apply to Roth accounts. For information on how Roth accounts may fit into your retirement income picture, talk to a financial professional.

You've been saving diligently for years, and now it's time to think about how to convert the money in your traditional 401(k)s (or similar workplace savings plans) into retirement income. But hold on, not so fast. You may need to take a few steps first.

Evaluate your needs

If you haven't done so, estimate how much income you'll need to meet your desired lifestyle in retirement. Conventional wisdom says to plan on needing 70% to 100% of your annual pre-retirement income to meet your needs in retirement; however, your specific amount will depend on your unique circumstances. First identify your non-negotiable fixed needs — such as housing, food, and medical care — to get clarity on how much it will cost to make basic ends meet. Then identify your variable wants — including travel, leisure, and entertainment. Segregating your expenses into needs and wants will help you develop an income strategy to fund both.

Assess all sources of predictable income

Next, determine how much you might expect from sources of predictable income, such as Social Security and traditional pension plans.

Social Security: At your full retirement age (which varies from 66 to 67, depending on your year of birth), you'll be entitled to receive your full benefit. Although you can begin receiving reduced benefits as early as age 62, the longer you wait to begin (up to age 70), the more you'll receive each month. You can estimate your retirement benefit by using the calculators on the SSA website, ssa.gov. You can also sign up for a *my* Social Security account to view your Social Security Statement online.

Traditional pensions: If you stand to receive a traditional pension from your current or a previous employer, be sure to familiarize yourself with its features. For example, will your benefit remain steady throughout retirement or increase with inflation? Your pension will most likely be offered as either a single life or joint-and-survivor annuity. A single-life annuity provides benefits until the worker's death, while a joint-and-survivor annuity generally provides reduced benefits until the survivor's death.¹

If it looks as though your Social Security and pension income will be enough to cover your fixed needs, you may be well positioned to use your other assets to fund those extra wants. On the other hand, if your predictable sources are not sufficient to cover your fixed needs, you'll need to think carefully about how to tap your

retirement savings plan assets, as they will be a necessary component of your income.

Understand your savings plan options

A key in determining how to tap your retirement plan assets is to understand the options available to you. According to the Government Accountability Office (GAO), only about one-third of 401(k) plans offer withdrawal options, such as installment payments, systematic withdrawals, and managed payout funds.² And only about a quarter offer annuities, which are insurance contracts that provide guaranteed income for a stated amount of time (typically over a set number of years or for the life expectancy of the participant or the participant and spouse).³

Plans may allow you to leave the money alone or require you to take a lump-sum distribution. You may also choose to roll over the assets to an IRA, which might offer a variety of income and investment opportunities, including the purchase of annuity contracts. If you choose to work part-time in retirement, you may be allowed to roll your assets into the new employer's plan.

Determining the right way to tap your assets can be challenging and should take into account a number of factors. These include your tax situation, whether you have other assets you'll use for income, and your desire to leave assets to heirs. A financial professional can help you understand your options.

¹Current law requires married couples to choose a joint-and-survivor annuity unless the spouse waives those rights.

²"401(k) Plans: DOL Could Take Steps to Improve Retirement Income Options for Plan Participants," GAO Report to Congressional Requesters, August 2016

³Generally, annuity contracts have fees and expenses, limitations, exclusions, holding periods, termination provisions, and terms for keeping the annuity in force. Most annuities have surrender charges that are assessed if the contract owner surrenders the annuity. Qualified annuities are typically purchased with pre-tax money, so withdrawals are fully taxable as ordinary income, and withdrawals prior to age 59½ may be subject to a 10% penalty tax. Any guarantees are contingent on the claims-paying ability and financial strength of the issuing insurance company. It is important to understand that purchasing an annuity in an IRA or an employer-sponsored retirement plan provides no additional tax benefits other than those available through the tax-deferred retirement plan.



Spring Cleaning Your Finances



The arrival of spring often signifies a time of renewal, a reminder to dust off the cobwebs and get rid of the dirt and grime that have built up throughout the winter season. And while most spring cleaning projects are likely focused on your home, you could take this time to evaluate and clean up your personal finances as well.

Examine your budget..and stick with it

A budget is the centerpiece of any good personal financial plan. Start by identifying your income and expenses. Next, add them up and compare the two totals to make sure you are spending less than you earn. If you find that your expenses outweigh your income, you'll need to make some adjustments to your budget (e.g., reduce discretionary spending).

Keep in mind that in order for your budget to work, you'll need to stick with it. And while straying from your budget from time to time is to be expected, there are some ways to help make working within your budget a bit easier:

- Make budgeting a part of your daily routine
- Build occasional rewards into your budget
- Evaluate your budget regularly and make changes if necessary
- Use budgeting software/smartphone applications

Evaluate your financial goals

Spring is also a good time to evaluate your financial goals. Take a look at the financial goals you've previously set for yourself — both short and long term. Perhaps you wanted to increase your cash reserve or invest more money toward your retirement. Did you accomplish any of your goals? If so, do you have any new goals you now want to pursue? Finally, have your personal or financial circumstances changed recently (e.g., marriage, a child, a job promotion)? If so, would any of these events warrant a reprioritization of some of your existing financial goals?

Review your investments

Now may be a good time to review your investment portfolio to ensure that it is still on target to help you achieve your financial goals. To determine whether your investments are still suitable, you might ask yourself the following questions:

- Has my investment time horizon recently changed?
- Has my tolerance for risk changed?
- Do I have an increased need for liquidity in my investments?

- Does any investment now represent too large (or too small) a part of my portfolio?

All investing involves risk, including the possible loss of principal, and there can be no assurance that any investment strategy will be successful.

Try to pay off any accumulated debt

When it comes to personal finances, reducing debt should always be a priority. Whether you have debt from student loans, a mortgage, or credit cards, have a plan in place to pay down your debt load as quickly as possible. The following tips could help you manage your debt:

- Keep track of your credit card balances and be aware of interest rates and hidden fees
- Manage your payments so that you avoid late fees
- Optimize your repayments by paying off high-interest debt first
- Avoid charging more than you can pay off at the end of each billing cycle

Take a look at your credit history

Having good credit is an important part of any sound financial plan, and now is a good time to check your credit history. Review your credit report and check for any inaccuracies. You'll also want to find out whether you need to take steps to improve your credit history. To establish a good track record with creditors, make sure that you always make your monthly bill payments on time. In addition, you should try to avoid having too many credit inquiries on your report (these are made every time you apply for new credit). You're entitled to a free copy of your credit report once a year from each of the three major credit reporting agencies. Visit annualcreditreport.com for more information.

Assess tax planning opportunities

The return of the spring season also means that we are approaching the end of tax season. Now is also a good time to assess any tax planning opportunities for the coming year. You can use last year's tax return as a basis, then make any anticipated adjustments to your income and deductions for the coming year.

Be sure to check your withholding — especially if you owed taxes when you filed your most recent tax return or you were due a large refund. If necessary, adjust the amount of federal or state income tax withheld from your paycheck by filing a new Form W-4 with your employer.



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gjohnston@jicinvest.com
www.jicinvest.com

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How can I prepare financially for stormy weather?

Floods, tornadoes, torrential rain, lightning, and hail are common events in many parts of the country during the spring and may result in widespread damage. Severe weather often strikes with little warning, so take measures now to protect yourself and your property.

Review your insurance coverage. Make sure your homeowners and auto insurance coverage is sufficient. While standard homeowners insurance covers losses from fire, lightning, and hail, you may need to buy separate coverage for hurricanes, floods, earthquakes, and other disasters. Consult your insurer or insurance professional, who can help determine whether you have adequate coverage for the risks you face.

Create a financial emergency kit. Collect financial records and documents that may help you recover more quickly after a disaster. This kit might contain a list of key contacts and copies of important documents, including identification cards, birth and marriage certificates, insurance policies, home inventories, wills, trusts, and deeds. Make sure your kit is stored in a secure fireproof and

waterproof container that is accessible and easy to carry. The Emergency Financial First Aid Kit, available online at ready.gov, offers a number of checklists and forms that may help you prepare your own kit, as well as tips to guide you through the process.

Protect your assets. Take some commonsense precautions to safeguard your home, vehicles, and other possessions against damage. For example, to prepare for a possible power outage, you might want to install an emergency generator and a sump pump with a battery backup if you have a basement or garage that is prone to flooding. Inspect your yard and make sure you have somewhere to store loose objects (e.g., grills and patio furniture) in a hurry, cut down overhanging tree limbs, and clean your gutters and down spouts. Check your home's exterior, too, to make sure that your roof and siding are in good condition, and invest in storm windows, doors, and shutters. In addition, make sure you know how to turn off your gas, electricity, and water should an emergency arise. And if you have a garage, make sure your vehicles are parked inside when a storm is imminent.



What bond ratings do agencies use?

Bond rating agencies typically use similar scales, and it may be helpful to understand how to compare ratings from multiple agencies.

This chart compares bond ratings in descending order of creditworthiness (from left to right) as judged by the three best-known credit agencies.

Standard & Poor's and Fitch Ratings use the symbols + and – to denote the upper and lower ranges of ratings from AA to CCC; Moody's uses the numbers 1, 2, 3 to denote the upper, middle, and lower ranges from Aa to Caa.

	Investment Grade				Non-Investment Grade			
Standard & Poor's	AAA	AA	A	BBB	BB	B	CCC	CC/C/D
Moody's Investors Service	Aaa	Aa	A	Baa	Ba	B	Caa	Ca/C
Fitch Ratings	AAA	AA	A	BBB	BB	B	CCC	RD/D

Note: If a bond is insured (typically for lower-rated bonds), there will be two ratings, one for the bond issuer and one for the insurer. Bond insurance adds a potential layer of protection in the event that an issuer defaults, but it is only as good as the insurer's credit quality and ability to pay. An investor should not buy bonds based solely on the insurance.



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Creative Giving

Giving to a charity is easy, right? You write a check and send it off to your favorite 501(c)(3) organization, and get a full deduction for the amount on your tax return, up to 50% of your adjusted gross income.

Most professionals would recommend that you put a bit more thought into how you give. For instance, instead of giving cash (which is basically what you're doing when you write that check) you could try a more tax-friendly approach: give stock or mutual funds that have gone up in value during your time of ownership. You get a deduction equal to the full value of the securities at the time of donation (rather than how much you originally paid for them), and never pay capital gains taxes on the appreciation.

If you want your donation to provide income during your retirement, consider a charitable remainder annuity trust or charitable remainder unitrust, where you put money in a trust set aside for your favorite charity. Over the rest of your life (actually up to a maximum of 20 years) you receive income of at least 5% of the original trust value (annuity trust) or the annually-recalculated actual value (unitrust) each year. When you die, or the term of the trust runs out, whatever assets remain in the trust are forwarded on to the designated charity. In each case, there is a tax calculation, based on the assets and the income you receive, which determines how much of a deduction you will get when you make the donation to the trust. And you avoid paying capital gains and depreciation tax recapture (if the assets happen to be real estate) on the property you contribute.

As an example, suppose you happened to have \$1 million worth of real estate that you originally purchased for \$200,000. When you sold these properties, you would owe capital gains taxes on the \$800,000 of appreciation, plus recapture of the annual depreciation deductions.

Now let's suppose you donated this property to a charitable remainder unitrust. The unitrust would sell the properties for \$1 million and reinvest that money in stocks or mutual funds. Under this arrangement, you might get income in the first year of \$60,000 (6% of the trust amount), avoid \$120,000 in capital gains taxes, and receive an immediate tax deduction of somewhere in the neighborhood of \$400,000.

If the stocks and funds in the trust were to earn 7% a year (no guarantee, obviously), then the value of the trust would increase, over the next 20 years, to just under \$1.5 million, at which time the full amount would be donated to the charity. Overall, you might receive roughly \$1.2 million in income over that same 20-year time period—a figure which, again, depends on the earnings inside the trust.

Another alternative is the lead trust, which works essentially the same way, except that this time the income is paid to the charity for that 20 year term, and then the assets in the trust pass to your heirs estate-tax-free. The lead trust is only appropriate if your assets at death would exceed the current estate tax threshold (\$5.49 million per individual, \$10.98 million for couples). Of course, the current Presidential administration has vowed to eliminate estate taxes altogether, so not many are rushing to implement lead trusts at the present time.

Finally, some families are creating a charitable inheritance, where the parents donate to a donor-advised fund, receive their tax deduction, and the donor-advised fund invests the assets to grow until the fund is told where they should be distributed. The children are designated as the advisor to those assets, giving them the right to instruct the donor-advised fund where to make donations. It's a simple, creative way to provide the adult children with an opportunity to determine their own charitable inclinations.

The bottom line here is that giving can be more rewarding, and more interesting, than simply writing a check.

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Drone Transport

The advent of driverless cars has made the future look awfully confusing. Will you even OWN a car ten years in the future, when all you'll have to do is pull out your phone and request an automated ride to wherever you want to go? Will there be automated drones that fly above the streets?

Perhaps the clearest picture of the next transportation era has been unveiled by the Airbus organization—the European consortium that makes commercial airplanes. Airbus has recently demonstrated how you will be picked up at your home in a vehicle that looks like a futuristic car. Then, at a transit site, a three-fanned drone will latch onto the car, lifting it from its wheels to take you dozens or even hundreds of miles away. The drone will deposit the cab you're riding in onto another set of wheels, which will take you on the streets to your final destination.

The technology will go on trial sometime within the next ten years, with battery technology cited as the biggest hurdle to full implementation.



Source:

- <http://www.impactlab.net/2017/03/20/airbus-pop-up-concept-may-be-the-best-flying-car-proposal-to-date/>



Executive Compensation Bloat

We heard a lot about income inequality and the stagnating incomes of middle class Americans on the campaign trail last year, and Wall Street firms that mostly move money around rightly got some of the blame. But hardly anybody talked about how CEOs routinely loot the treasuries of their own companies, taking money out of the pockets of stock investors and shareholders who they theoretically work for.

How does this happen? Many public companies are run by CEOs who staff their compensation committees with cronies and buddies, who then turn around and approve huge salaries and stock incentives to the CEO. Often, the committee will compare their CEO's salary with a comparable group of other chief executives who are also getting enormous pay raises. This circular process creates an artificial rising tide that lifts compensation packages in the C suites while doing nothing for the workers who actually make the products or provide the labor that the company sells to generate profits.

How big is this problem? According to an organization called GlassDoor.com, which collects salary data anonymously from public companies, the average CEO made about 20 times the average salary of the company's workers in 1965. Since then, inflation-adjusted CEO compensation has increased an astonishing 997 percent, which is double the stock market growth over that same period, and substantially greater than the 10.9% total growth in a typical worker's annual compensation. Some CEOs, like David Zaslav of Overy Communications, earn 1,951 times what his company's average worker makes. Chipotle CEO Steve Elis's \$29 million in total pay was calculated to be 1,522 times more than the average Chipotle worker's pay, and Walmart CEO Douglas McMillon's \$25.5 million compensation was 1,133 times what the greeters and cash register people make when they serve their customers.

Don't shareholders rise up in protest? In most cases, no, and the problem is aggravated by the fact that so much stock is now held in index funds. More than 25% of all large company stock is in mutual fund portfolios on behalf of investors. Many funds refuse to vote on shareholder activist initiatives, while others, like the index funds run by Vanguard, can't pull their money out of a company without introducing a deviation in their holdings compared to the index they're supposed to be tracking.

Executive Compensation Bloat

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You can expect to hear more about the ratio between CEO and median worker pay. The Dodd-Frank Act, passed in response to the global economic crisis of 2008, requires companies to share their ratios beginning this year. If you were shocked by the numbers you read here, then you can expect many Americans to be alarmed when routinely published data shows how far their income has fallen behind the cozy residents of America's C suites.

Sources:

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Financially Protecting Your Parents

People reach their peak decision-making abilities sometime in their 50s, and then decline slowly until after age 70, when the decline starts to take off more dramatically. This helps explain why sweepstakes frauds, Nigerian investment schemes and other scams target seniors and retirees.

What can you do to protect yourself—or your parents—from fraud and bad financial decisions? An article in NerdWallet suggests that parents and children can start by drafting powers of attorney, one for health care decisions and the other for financial decisions. This lists who the retirees want to speak for them in case they become incapacitated.

You can also simplify the financial lives of aging parents, by consolidating the checking accounts at one bank, and the investments at a single advisor or brokerage account. If there are many credit cards, cut up all but two: one for daily purchases and one for automatic bill payment.

The adult children should also make a habit of communicating with their aging parents. Scam artists do their best work when their victims are isolated, without family and friends looking for signs of exploitation. A weekly visit might help you spot someone who's getting too friendly.

Some places to learn about the more creative elder fraud schemes include StopFraud.gov, AARP's Fraud Watch Network and the IRS, which offers consumers alerts and an annual list of the "Dirty Dozen" top tax-related scams. Adult children can discuss common frauds, such as telephone imposters pretending to be IRS agents or Microsoft tech support.

Meanwhile, many financial institutions offer text or email alerts to notify their customers (and their advisors) of unusual account activity. People over 65 can have these automatically forwarded to an adult child who functions as an extra pair of eyes on what's going on in the account.

For many older retirees, there comes a point when the financial issues become too complex and overwhelming. That's the time to have a trusted successor or advisor take over the management of finances. The best advice here is: don't resist giving up the day-to-day financial minutia. Experts report that most older Americans don't recognize their gradual impairment, and often try to hang onto financial control beyond their capacity—and then hide the fact that they fell for a scam out of embarrassment until the next one comes along.

Source:

- https://apnews.com/b968fde18504487bbe12ad658012ef70/Liz-Weston:-How-to-help-your-parents-protect-their-money?utm_campaign=SocialFlow&utm_source=Twitter&utm_medium=APBusiness



Where to Find Happy People

The World Happiness Report is out, and a group of independent experts have now compiled surveys of people in 156 countries, asking them to evaluate their lives on a scale of 1-10. They then looked at some of the factors that seem to contribute to happiness, and identified five: real GDP per capita (a measure of average wealth); healthy life expectancy at birth; freedom to make life choices; generosity; and whether or not they perceived their society to have elements of corruption.

Number One on the list is Norway, and you might see a certain pattern when you see the runners-up: 2) Denmark, 3) Iceland, 4) Switzerland, 5) Finland, 6) The Netherlands and 7) Canada. Sweden comes in at number 10, rounding out the socialistic Nordic societies. In between are 8) New Zealand and 9) Australia.

Where does the U.S. rank? Number 14, behind Israel (11), Costa Rica (12) and Austria (13). The U.S. ranked poorly in social support and, interestingly, mental illness. America's ranking was as high as third in 2007, when people were less likely to cite corruption as a part of their lives.

Where are people least happy? Most African countries reported low levels of happiness. And, interestingly, the people in China report being no happier today than they were 25 years ago, despite rapidly-growing per capita income. Chinese respondents to the survey attribute their lagging happiness to rising unemployment and a poor social safety net for the less fortunate.

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